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ABSTRACT

Communications can play an important role in rural development. Especially promising are programs to reduce the cost of transportation and to extend services to dispersed rural populations, especially education, health, and entertainment services. There is a strong presumptive case that broadband communications can do a great deal to promote rural development. However, to be effective communications systems must be geared to the realities of rural conditions. As in other service areas, the communication systems have strong urban orientations which must be changed if these systems are to be useful for rural people. In addition to the need to gear development programs to the special realities of rural places, a rural development policy must be based on a number of other considerations. Among these is the need for a national balanced growth and full employment strategy and a rural development policy that will moderate inflationary pressures and facilitate the achievement of full employment. This paper aims to establish the basis for a discussion of the usefulness of broadband communications for rural development by discussing some of the main characteristics and trends in rural development and outlining some of the public and private rural development mechanisms. (Author/NQ)

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U.S. Congress

Office of
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Conference on

Communications and Rural America

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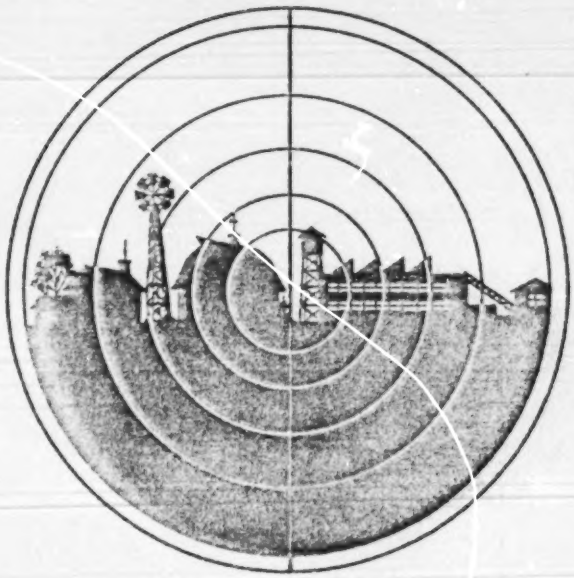

November 15, 16, and 17, 1976

Washington, D. C.

RC 009673

Communications and Rural America

Purpose

In April 1976, the Office of Technology Assessment (OTA) of the U.S. Congress issued a staff report entitled *The Feasibility and Value of Broadband Communications in Rural Areas.* The purpose of the conference is to extend this effort by:

- Considering a broader range of communications technologies which might be used to meet rural needs.
- Further examining the question of whether system demonstrations aimed at achieving economic viability are needed and if so, identifying the kinds of demonstrations which might be undertaken.
- Further examining whether rural interests have been adequately considered in existing Federal communications policy.

The outcome of this effort will be a report incorporating the information and points of view presented at the conference.

Congressional Interest

The conference is being held in response to a request for additional information on rural communications from Senator Herman Talmadge, Chairman of the Senate Agriculture Committee, as approved by the 12 member Technology Assessment Board of the U.S. Congress. Senator Pastore of the Senate Subcommittee on Communications subsequently joined Senator Talmadge in support of the conference. It is intended that the conference will be of value to the U.S. Congress in its deliberations on communications policy.

Conference Dates and Organization

The conference will convene for 3 days, November 15–17, 1976, with about 60 invited participants. For the first 2 days, participants will be equally divided among three panels which will meet in parallel. Each panel will concentrate upon a specific topic addressed in the OTA report as follows:

- **Panel 1.** Rural Development and Communications.
- **Panel 2.** Technology, Economics, and Services.
- **Panel 3.** Federal Policy.

On the third day, participants from all three panels will meet together to exchange and synthesize findings and explicitly address the question of rural system demonstrations.

Cosponsoring Institutions

The National Rural Center is cosponsoring Panel 1 (Rural Development and Communications). The Aspen Institute is cosponsoring Panel 3 (Federal Policy).

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COMMUNICATIONS

AND

RURAL DEVELOPMENT

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DISCUSSION PAPER FOR PANEL #1

OTA CONFERENCE ON COMMUNICATIONS

AND RURAL AMERICA

Prepared by

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NATIONAL RURAL CENTER

There is a strong presumptive case that broadband communications can do a great deal to promote rural development. Indeed, population dispersion and isolation are major problems for rural people. As a consequence of isolation and low population densities, transportation is expensive and inadequate in many rural areas. Improved communications could therefore do much to remove the isolation of rural people.

Despite the strong presumptive case for broadband communications as an instrument of rural development, a number of considerations make it difficult to specify the development potential of broadband communications for this purpose. For one thing, it is not at all clear that broadband systems can become economically viable. Secondly, many unexpected uses of such a system, beyond its obvious utility for improving education, health, and law enforcement, would undoubtedly be discovered by rural people once broadband facilities were available.

Finally, complex interrelationships are involved in the development process, all of which could interact with a broadband communications system. Rural development requires (1) job creation by private profit-maximizing and non-profit-maximizing organizations; (2) improvements in selective employment policies (information systems, training, public employment,

improvements in the operation of labor markets); (3) improvements in the quality and accessibility of education, health care, and income maintenance services; and, (4) greater accessibility of entertainment and other amenities urban people take for granted. Broadband communications could facilitate all of these processes. But the financial viability of broadband systems will depend on sufficient economic development to support the cost of those systems.

This paper attempts to form the basis for a discussion of the usefulness of broadband communications for rural development by discussing some of the main characteristics and trends in rural development and outlining some of the public and private rural development mechanisms.

Dimensions of Rural Development

For the purposes of this paper, "rural" and "nonmetropolitan" will be used interchangeably. Although many people confuse rural with farming, the farm population is a relatively small part of both the population (9 of 57 million) and work force (less than 4 of 30 million).

Poverty

A major problem for rural development is the relatively high incidence of poverty. Nonmetro areas have about 27 percent

of the nation's population and 40 percent of the poor. It is not entirely a coincidence that the incidence of poverty was identical in central cities and nonmetro areas in 1974 (14.4%) because much of metro poverty originated in the displacement from rural areas of people who were unprepared for urban living or employment. The incidence of poverty is particularly heavy in the South, which has 60 percent of the nation's nonmetro poor and only 40 percent of the metro poor. In the South most poor people live in nonmetro areas (5.7 of 10.8 million in 1974); outside the South poverty is concentrated mainly in metropolitan areas (only 3.8 of 13.5 million poor live in nonmetro areas outside the South.

Although the growth has been uneven and many gaps remain, nonmetro areas are growing relative to metro areas in population, employment and income:

A. Between 1970 and 1974, population grew by 3.4 percent in metro and 5.6 percent in nonmetro areas. The main reasons for this growth were:

   1. More people want to live in rural areas and small towns.
   2. More people are moving to rural areas for recreational and retirement purposes.
   3. Many college and university towns are located in rural areas and these have grown since World War II.
   4. Manufacturing employment has grown more rapidly in metro than in nonmetro areas since 1960. However, nonmetro areas are diversifying since 1970;

manufacturing accounted for 50 percent of the increase in nonmetro jobs between 1960 and 1969 but accounted for only 18 percent between 1969 and 1974.

5. A major trend in rural areas has been the rapid decline in the farm population. However, the annual rate of outmigration from farms declined to 1.9 percent between 1970 and 1974 after having been 4.8 percent during the 1960s.

6. Employment increased faster in nonmetro areas (1.7%) than in metro areas (0.2%) between 1973 and 1975 and became more diversified.

7. The growth and impact of rural employment is uneven both with respect to people and places. Although employment has grown faster in the South than in the rest of the country, predominately black population areas have not shared proportionately in that growth. Moreover, blacks in those predominately black areas have not benefited as much as whites from economic development. There were 244 counties in the South with 5,000 or more blacks in 1960. The incidence of poverty in these counties was:

	Blacks	Whites
1960	81 percent	32 percent
1970	56 percent	30 percent

with 40 percent of the population in these counties in 1960, blacks accounted for only 16 percent of the nonagricultural job growth during

these years. Indeed, blacks in these counties lost 97,000 jobs (farm and nonfarm) during the 1960s while whites gained 287,000 jobs. As a consequence, there continues to be heavy black outmigration from these counties, which are gaining whites. The reduction in black poverty in these counties has been due more to outmigration of the poor to central cities than to improvements in employment income.

8. Despite the decline in the proportion of the nation's poor living in nonmetro areas, the incidence of poverty in nonmetro areas and central cities is over twice as high as it is in the suburbs and median incomes of nonmetro families are only 75 percent of those of metro families.

The Problem

The lack of rural development and the high incidence of rural poverty therefore continues to create the following problems for rural and urban people.

A. Poverty, outmigration, and low population densities create additional problems of poor health, inadequate housing, low levels of education and generally lower quality of life for nonmetropolitan people.

B. The movement of people out of rural areas creates problems for urban people (crime, congestion, pollution, ghetto system, welfare dependency, fiscal crises).

C. Not only urban problems are created by rural-urban migrations but there also is a cumulative decline in certain rural areas. There has been considerable rural progress, but it is uneven both with respect to people and with respect to places.

Cumulative because migration leaves residual populations (very young and very old), making economic development more difficult.

D. The lack of rural development limits the choices of rural and urban people. Opinion polls show the majority would prefer to live in small towns or rural areas but are unable, largely for economic reasons, to act on that desire.

E. Inefficient use of the rural resources. Elimination of waste could provide the resources to help solve many national problems.

Uniqueness of Rural Conditions

Broadband communications systems and other facilities developed for urban conditions must be modified to fit rural conditions. Indeed, a major obstacle to rural development is the fact that many of the major systems required for rural development have strong urban orientations and therefore are incompatible with rural conditions.

Four examples--poverty, labor markets, health, and communications--will illustrate the uniqueness of rural problems. Most rural poor families are headed by employed males while urban poor families are more likely to be headed by females. Seventy percent of poor rural children have both parents at home, compared with only 43 percent of urban poor children. Rural poverty is therefore more closely connected to inadequate earnings while urban poverty is more closely associated with family breakdown, crime, drug addiction and other factors associated with labor force withdrawal. Because the public assistance programs in the United States concentrate heavily on families without fathers, they automatically discriminate against rural areas.

The rural poor also receive unequal treatment under public assistance programs because of the barriers they face in obtaining benefits to which they are entitled. These include:

1. Inadequate transportation facilities, making it difficult for the rural poor to travel to welfare offices, medical facilities, food stamp distribution facilities, etc.

2. Limited education levels make it difficult for rural people to learn about and apply for public assistance programs.

3. Because of the greater visibility of people in small towns, participants in public assistance programs might be embarrassed to have employers, neighbors, and parents of their children's friends know about their receipt of public assistance. Pride precludes participation by many rural poor people in public assistnace programs, even when they are unable to meet their families' basic needs.

Similarly, as compared with their urban counterparts, rural labor markets are likely to have less formal information systems, fewer job opportunities for workers, less specialization, fewer choices of workers for employers, and of jobs for workers, and are more likely to be associated with marginal labor-intensive jobs. Unions are much more likely to represent urban workers.

The urban bias in our medical system makes it difficult to meet the health needs of rural people. There has, for

example, been a trend towards sophisticated technology and increasing specialization in medical practice. Both of these characteristics require high population densities and bias the medical system against rural areas. The existing system also is not very efficient in terms of the resources used and their impact on health. Rural places require more attention to the use of family or general practitioners, the use of non-physician health professionals, and major attention to environmental and preventive medical care and health education.

Government regulations very often are designed for urban conditions, making them inappropriate for rural conditions. An example of this is the FCC cable regulations which have not encouraged two-way transmission capabilities, thereby limiting the usefulness of broadband facilities for rural development; the provision that education and public channels be provided free of charge, making it difficult to strengthen the economic viability of rural systems by charging for these services; restrictions on the importation of distant signals, which could limit the variety of programs a rural cable system could provide its users restraints on the use of translators as a supplement means of providing services to remote households. In other words, FCC regulations based on urban conditons make it very difficult to use the systems approach which could make broadband communications a very useful adjunct of rural development.

This list could be extended but it should be sufficient to make the point that selective programs must be geared to the realities of rural places.

Considerations for a Rural Development Policy

In addition to the need to gear development programs to the special realities of rural places, a rural development policy must be based on a number of other considerations.

Among these is the need for a national balanced growth and full employment strategy and a rural development policy that will moderate inflationary pressures and facilitate the achievement of full employment.

However, balanced growth, full employment and rural development are not likely to be achieved by market forces alone. Indeed, market forces tend to displace people from rural areas and cause them to be concentrated in urban areas, even when most people would prefer to live in rural places, and even when it is clear that market forces can cause cumulative decline in the quality of life in rural and urban places. Markets can regulate many kinds of economic activity, but they cannot do much to change systems of behavior that cause certain people and places to be left out of the development process. Markets must therefore be stimulated and complemented by positive government action.

General monetary-fiscal policies to stimulate economic activity can facilitate solutions to rural problems but those policies have uneven effects and will generate inflationary pressures in urban and some rural markets long before they have much effect on those rural areas that tend to be by-passed by general economic progress. Rural development could simultaneously reduce unemployment and moderate inflationary pressures in urban areas.

Rural development is in the national interest. Because of the growing interdependence of our economy, there are mutual interactions between rural and urban problems. Problems are transmitted back and forth between rural areas through labor and product markets. National resources for rural development will be limited if urban problems require larger proportions of those resources and vice versa. Rural and urban areas will benefit from balanced growth and full employment which will make more resources available to help solve pressing national problems. Full employment also will make it easier to solve structural problems in rural and urban areas.

Rural and urban development are therefore mutually beneficial and both are required for a prosperous national economy.

Meaning and Objectives of Rural Development

The main objective of rural development should be to make it possible for rural and urban people to improve the quality of their lives and to increase their residential options. Most opinion polls show that an increasing proportion of people would prefer to live in rural areas or small towns but are unable to do so because they cannot earn adequate incomes in rural places.

Narrow market forces therefore force people to move from rural to urban places, even though migration might be

detrimental to both areas. By depopulating rural areas, not enough people are left to support viable development programs and forcing people into larger cities creates congestion and environmental problems.

Rural development could alleviate some of the nation's environmental problems. The essential environmental problem is that congestion and modern technology frequently cause more damage to the environment than it can recover from in a reasonable period of time.

We neglected environmental and other community problems for a long time because our individualistic economic decision-making caused us to ignore social costs. But environmentally destructive systems clearly cannot be permanent. Long-range solutions require the development of systems that will cause the polluters to absorb all of the costs of pollution. We also need to develop production and consumption technologies to permit recycling or absorption of wastes or their conversion to forms easily assimilated by the environment.

Rural development and population dispersal will not solve the environmental (or other urban problems) but could reduce the pollution overload on urban areas.

Development has a number of meanings. In a general economic sense development means increasing the per capita incomes of the people who live in a particular place.

As I use the term, however, development is not measured by any one indicator, but is multi-dimensional. Merely

increasing per capita incomes is an unacceptable measure of rural development because we must also be concerned about other considerations. It is possible, for example, to increase per capita incomes (by bringing in high income people or raising the incomes of a few people) and leave most of the people who lived in a place before this "development" took place much worse off than they were before. We must therefore be concerned about who benefits from development. Targeted programs must be developed to address the needs of particular groups in rural areas.

In a general sense a desirable rural development policy would make it possible for people to develop programs to improve the quality of their lives.

But how do we know what improves the quality of people's lives? Beyond some general principles, we don't.

The best policy would be to allow rural people to evolve their own goals and program mixes. Development is not likely to take place without local initiative and leaderhsip.

Obstacles to Local Initiative

There are, however, a number of obstacles to local initiative. In many places, control of resources and decision-making by a relatively few people makes it difficult for many people to participate effectively in development plans. In some places, a dominant company, often an absentee landlord, controls land or other resources and is therefore able to

prevent development that is contrary to the interests of that dominant company or group, even when development might be in the interests of most people in the area.

The lack of leadership and organizational resources is a major problem in many rural areas. About the only well-organized groups are the rural electric coops and commercial agriculture, which has done a good job in protecting its relatively narrow economic interests. Unfortunately, however, a very small percentage of the rural population depends mainly on commercial agriculture for a living. There are over 57 million people in rural America, and less than 9 million of these live on farms. There are about 30 million people in the rural work force and only about 4 million of these are in farming. Moreover, most farm operators now get most of their income off the farm. Thus, while agriculture remains a very important element in rural economies, the rural nonfarm sector is much more important.

There is a need to strengthen the organizational and service delivery capabilities of rural nonfarm people. This can be done in the following ways:

1. Strengthening voter registration and broad participation in the political process.

2. Local governments should be strengthened, but these governments must be large enough and have sufficient power to deal effectively with developmental problems.

The most effective organizational structures for rural development are the multi-county substate districts. State governments could strengthen these organizations through statutes which assign these districts certain functions and permit them to undertake others; the assigned functions should meet the state's needs for information, planning and program administration. These districts should be permitted to enter into coordinated development plans with other public and private organizations to handle problems that transcend the boundaries and capabilities of local governments.

A major problem for local multi-county planning districts has been inadequate funding. A variety of sources of federal, state and local funds should be available to these substate districts to permit them to carry out their functions. Multi-county planning districts also would benefit from tax reforms that removed the necessity for heavy reliance on property and excise taxes as means of financing services.

Although many improvements need to be made in the responsiveness and effectiveness of local governments, governmental action alone will not promote effective rural development. Development takes place mainly as a result of private decisions. In order to make it possible for most rural people to have the organizational resources to solve their problems, public policy should facilitate the formation of a number of private organizations to undertake various development programs

and to represent people in the governmental process. Governments have already facilitated the organization of some groups by permitting private parties to form business organizations such as proprietorships, partnerships, corporations, syndicates, trusts, and cooperatives. National policy also encourages the formation of unions to represent workers in the nonfarm sector. These organizational forms have done much to strengthen the American economy and democratic processes.

In order to strengthen our organizational resources, those rural people who are not well organized should receive assistance in forming organizations to represent them.

Examples of organizations needing encouragement through technical and financial assistance include:

a. Cooperatives, especially among low income farmers and small business men and to promote the development of broadband communications and other community facilities.

b. Local community development corporations or associations, especially to serve the development needs of those people and places left out of private market oriented developments.

Many places and people do not participate in development not because there are no profitable activities for them, but because businesses motivated mainly by maximizing profits look for the most profitable investments; they will not necessarily exhaust all profitable activities.

This apparently will be true of broadband communications in some places where community co-ops or corporations might be able to develop facilities that would be provided by private profit maximizing firms.

Locally controlled development associations motivated mainly to provide jobs, income, or services to local people could develop these activities and make profits in the sense of more than covering costs from whatever sources.

c. The limitations on freedom of organizational choice for rural workers should be removed by (1) removing the exclusion of agricultural workers from the National Labor Relations Act; (2) strengthening the penalties on employers for violating workers' organizational rights under the NLRA; and (3) increasing the resources available and removing the obstacles to the speedy adjudication of unfair labor practices under the NLRA.

The guiding principles underlying these organizational reforms should be to restore a sense of community and control to local people, to make governments more responsive to their needs, and to promote more effective development through wider participation in the governmental and economic processes.

It is particularly important to restore the sense of community by local rural groups who feel that large-scale governmental and private organizations make local participation more difficult.

Strengthening local organizations would therefore improve the effectiveness of government at every level.

Rural Development Agencies

Multi-State Planning Agencies

Since government jurisdictions do not always coincide with the functional economic areas required for rural development, a number of regional and substate organizations have emerged.

Some of these were used during the New Deal period of the 1930s--the Tennessee Valley Authority, the Rural Electrification Administration, the Civilian Conservation Corps--all had profound implications for rural people.

A number of additional organizations emerged during the 1960s. The most notable of these were those created by the Appalachian Regional Development Act (ARDA) and the Public Works and Economic Development Act (PWEDA)--both passed in 1965.

The ARDA created the Appalachia Regional Commission to coordinate the largest federal-state development program ever undertaken in the United States. The 1965 Act, since extended, gave high priority to highway development on the assumption that lack of accessibility was a serious obstacle to the development of Appalachia. The ARC later shifted its emphasis to human resource development.

The Title V Commissions

Title V of the PWEDA authorized the Secretary of Commerce to designate, with the cooperation of the states involved, multistate regions containing common problems of economic distress or lag that extend beyond the capability of any one state to solve.

These Title V commissions have not been as effective as the ARC. They have not received the magnitude of funds; they have less independence because they operate under the Secretary of Commerce; they had less advance planning and they have had greater political problems.

The Title V Commission can only fund planning and demonstration projects. They do not have their own cluster of specific programs, and there have been few systematic attempts to build the necessary linkages between regional and state planning efforts. There also has been little coordination between the Economic Development Administration and the Title V Commissions, even though both are lodged in the Department of Commerce.

The Economic Development Administration (EDA)

The EDA was created by the PWEDA of 1965 to assist the regional commissions (a role it has never effectively assumed) and to provide assistance to areas characterized by chronic economic distress.

To accomplish these objectives, the EDA has a wide array of programs, including grants and loans for public works and development facilities; industrial and commercial loans; and technical, planning and research assistance.

EDA has been criticized for failing to assist the Title V commissions and for failing to develop a coherent development strategy. Early in its existence EDA developed a "worst first" strategy which was criticized for concentrating resources in areas with little development potential. The Agency shifted to a "growth center" strategy which produced very limited employment or service benefits for depressed counties.

Role of Governors

The federally-inspired regional development programs have stimulated development in some places but their effectiveness has been directly proportional to the quantity and quality of the involvement of the relevant governors.

The governors occupy a strategic role because the states are key development agencies, even when the ultimate source of funds is the federal government. The states are the key agencies by which government expenditures for domestic purposes are made.

The governors have suffered, however, from the absence of a coherent federal rural development policy and from the absence of effective planning mechanisms at the state level.

If the governors create meaningful planning untis, they will still have to compel the various federal agencies to coordinate their plans, programs, and projects within the framework they establish. Rural development efforts face enough difficulties without having to endure the inefficiencies of piecemeal and uncoordinated planning efforts.

The Role of the Federal Government

Since rural development will be effective only if it is carried out systematically, there is a logical division of labor between various levels of government and the public and private sectors. The main role of the federal government in promoting rural development should be to; establish national policy; provide some funds to carry out those policies; provide certain experimental, demonstration, technical assistance and research in connection with national policies; monitor projects to be sure national policies are being observed.

There can be little question that competence by each sector of government will make the developmental process more effective. To enhance the local effects of federal actions requires some way for the federal government to ascertain the problems and needs of local people and to be responsive to those local needs and problems. This objective can be more effectively achieved if the network of public and private development organizations is functioning properly.

Federal Rural Development Policies

There have historically been a number of federal programs to promote rural development. The anti-poverty and regional development programs of the 1960s renewed interest in rural development because of the growing conviction during those years that urban problems had rural origins. In the 1970 farm bill Congress committed "itself to a sound balance between rural and urban America. The Congress considers this balance so essential to the peace, prosperity, and welfare of all of our citizens that the highest priority must be given to the realization and development of rural areas". The main legislation to carry out this commitment was the Rural Development Act (RDA) of 1972.

The Rural Development Act

Congress passed the RDA instead of President Nixon's proposed system of special revenue sharing for rural development.

The RDA gave authority for rural development to the U.S. Department of Agriculture. Taken literally, the Act could provide considerable employment directly in constructing community facilities and new businesses and indirectly in ongoing employment in new or expanded industrial activities.

The Act also provides for increased research on the problems of small farmers.

The RDA provides for a system of loans, grants, and loan guarantees to public and private organizations to build community facilities and promote development, loan guarantees

for housing to low income rural people; new rural development research and extension programs for rural development administered by the land grant universities in each state; and comprehensive planning grants to public agencies or to "such other agencies as the Secretary may select."

Despite the RDA's rhetoric about rural development, its impact has been very limited because:

(1) President Nixon signed the Rural Development Act reluctantly and the Ford Administration has not been enthusiastic about rural development. The Nixon Administration preferred special revenue sharing and more responsibility for state governments and the private sector.

The conflicts between Congress and the Nixon and Ford Administrations were therefore major obstacles to the development of a coherent rural development policy. As a consequence, the Act has not been adequately funded and the funds that have been appropriated either have been impounded by the administration or not spent very enthusiastically.

Another related problem has been the fact that major responsibility for federal rural development policy has been lodged in the U.S. Department of Agriculture, whose top leadership, unfortunately, has exhibited very little interest in rural development.

Small farmers, defined as those who gross $10,000 a year or less from agriculture, face different problems from larger commercial farmers, but they will be welfare problems only if

they are displaced from farming. Indeed, larger commercial farmers always have been more heavily subsidized than smaller farmers.

Other major differences between small and large farmers include: small farmers concentrate mainly on labor intensive crops, larger farmers are involved in more land and capital-intensive operations; there are relatively few large farmers but they produce most of the agricultural output; conversely, small farmers constitute over two-thirds of all farmers, but produce less than 15 percent of the total agricultural output; small farmers produce very little output for international markets, which are dominated by large producers; small farmers get most of their income off the farm while larger farmers derive most of their income from agriculture, finally, larger farmers are much better organized politically and economically and have interlocking relationships with agricultural suppliers and buyers, who have considerable power within the agricultural system.

Need for a National Policy

Federal rural development programs also will not be very effective as long as there is no coherent policy with respect to population dispersal and rural development. The RDA is limited because it does not contain an adequate conceptual framework for rural development. The Act merely contains a collection of 28 major authorities (and a number of minor ones) many of which had already been covered in previous legislation.

Role of Credit

Another major problem for rural development is credit. Credit is important because the availability of investment funds is an important precondition for rural development. As in many other areas the credit system has an urban bias so that rural borrowers receive less credit and pay more for it than urban borrowers in similar circumstances.

Rural commercial banks have less impact on rural development than they might have because of their small size and conservative lending policies.

The Federal Farm Credit System was created during the 1920s and 1930s to meet the credit needs of farmers. Though federally authorized, the component institutions are now primarily owned and operated by borrower members is 12 districts.

The FCA's component institutions are:

1. The Federal Land Banks (FLB) which make long term loans primarily for farm real estate and some loans for housing, equipment and farm-related business.

2. The Production Credit Associations, which make short and intermediate term (up to seven years) loans to farmers for operating expenses and other farm-related needs. These loans are discounted by Federal Intermediate Credit Banks which in turn obtain funds by selling securities on national money markets.

3. A Central Bank for cooperatives and 12 regional banks make both long term and seasonal operating loans to agricultural cooperatives and sell funds on national money markets.

A number of federal institutions make nonfarm loans in rural areas. These include:

1. The Economic Development Administration, which makes loans and grants in high unemployment and low income areas for industrial development, public works, planning and technical assistance.

2. The Farmers Home Administration (FHA) was established in 1946 to provide operating and farm improvement loans to farmers or groups of farmers who could not get funding elsewhere. Over the years the initial intent to serve farm residents has been expanded to serving rural residents. Unlike the FCA, FHA funds come primarily from Congressional authorization. Besides directly making loans FHA guarantees loans made to rural residents by commercial lenders.

The FHA has been handicapped by limited funds and personnel to supervise loans. Although FHA has furnished credit to groups too risky to get loans from other sources, its repayment rate is good; it was reported in 1975 that only 1.5 percent of FHA's loans were finally written off.

The Small Business Administration was created in 1953 to make it possible for small businesses to take advantage of profitable opportunities that were being lost due to lack of funding.

Besides providing loans to small business enterprises, the SBA licenses, regulates and participates in the funding of Small Business Investment Companies and lends to state and local development companies.

In general, the rural credit system is not very satisfactory for rural development purposes. The FCA is controlled mainly by larger farmers, making it difficult for smaller farmers to obtain credit, even though the loss rate to small farmers from federal lending institutions has been relatively low. Federal lending institutions also have been too fragmented to support a coordinated credit program.

Finally, most of the federal lending institutions have had inadequate personnel and loan funds to adequately supervise a rural development strategy.

The Rural Development Bank proposed by Senator Humphrey (S. 1724) could go a long way toward meeting rural credit needs. This bank would establish local lender-and-borrower-owned facilities to provide equity-participation investment funds for rural development. This Bank also would render financial assistance to local lenders in rural areas and to those who buy, discount, or rediscount local loans.

The RDB could do much to promote rural development if in addition to general development loans, it created loan programs of special assistance to small or younger farmers, as is done with the Canadian Farm Credit Corporation.

The guiding principle of the Rural Development Bank should not be to make profits by making loans to those with the greatest ability to repay. It should be to promote development by funding those individuals and institutions who have development programs and potential but who are not able to obtain funds from other sources.

The RDB should also have a technical assistance capability to help borrowers with the technical aspects of their projects. This supervised credit approach would be particularly useful for small towns and rural areas. An RDB could facilitate the establishment of broadband communications systems by making loans unavailable to construct and operate broadband facilities.

The RDB could do much to strengthen low income cooperatives, community development corporations and other institutions to promote development among people or in areas by-passed by profit-maximizing institutions.

Components of a Rural Development Program

Because needs in different places vary, a flexible mix of programs must be available to rural areas to promote rural development. These programs should be available from a variety of federal, state and regional agencies.

Jobs should be created mainly by the private sector to take advantage of profit maximizing opportunities in rural areas. The essential problem of job creation has been caused by the rapid displacement of people from agriculture as a result of technological changes. This displacement plus the natural population increase has necessitated the outmigration of millions of people from rural to urban areas.

Despite recent growth in rural areas a number of problems remain:

1. The growth is very uneven and many areas are bypassed by these developments.

2. Much rural industry is very labor intensive and pays low wages, so those employed become the working poor.

3. Although they do not produce more than 15 percent of the total agricultural output, small farmers account for a large proportion of the total farm population.

These small farmers have increasing credit, marketing and organizational problems. Small farmers are not being displaced because they are inherently less efficient than larger farmers but because they have low volume, limited education, inadequate capital and limited resources. Most small farmers get most of their income off the farm but farming is an important source of income for many of them.

Experience indicates that special education, technical assistance and credit programs to help small farmers can be very cost effective for the government and for small farmers.

Even if small farmers were subsidized, it might be a good use of public funds to make small farmers largely self-sufficient.

The main nonfarm rural development problem is how to promote development in those areas--like the Black Belt of the South--likely to be left out of the general economic development of other areas.

For these lagging areas, efforts should be made to strengthen private development activities through special

development corporations that make (but do not maximize) profits. It also would be possible to concentrate various public employment programs in these areas.

The general principle for job creating activities should be to create jobs and improve incomes through a flexible mix of programs.

A special development technique to promote rural development that should be expanded is the Concerted Services in Training and Education (CSTE) program which has demonstrated the effectiveness of training development coordinators to bring together the necessary resources in a county or group of counties. This approach is based on the realization that the necessary resources for development frequently are available in rural areas, but must be brought together by specialists who have the confidence of local communities. The CSTE coordinators avoid the problems associated with interagency rivalry by not being associated with any government agency.

Selective Policies

Selective training programs also can be very effective in promoting rural development by improving the operation of labor markets. Examples include:

1. Special outreach programs to recruit and train rural workers for jobs on major public or private projects.

2. Programs to train small farmers for farm and nonfarm skills.

3. Public works programs to give jobs to unemployed older people, youths, and others in rural labor markets.

4. Programs to decasualize agricultural labor markets and improve wages, hours and working conditions without increasing labor costs.

5. Special programs to promote development by increasing workers' skills. The "start-up training" concept uses job training as part of an industrialization program by guaranteeing employers that workers will be trained to their specifications before plants are opened.

6. Relocation projects to move workers from labor surplus to labor shortage areas.

Services

Development can be promoted by programs to provide health, housing, education, communication, transportation, and other services. These activities stimulate development directly by increasing incomes and indirectly by providing services attractive to industry.

Health is a particularly important need in rural areas. However, as noted earlier, health programs must be geared to the special needs of rural people. Viable health models include those based on group practice to give greater stability and break professional isolation, attention to effective organization and the use of non-physician health professionals in order to keep costs down and extend health care into rural areas, adequate attention to preventive and

environmental health problems and health education. A systems approach is required to get adequate and economical health care to rural people.

Conclusions

Communications can play an important role in rural development. Especially promising are programs to reduce the cost of transportation and to extend services to dispersed rural populations, especially education, health, and entertainment services. However, to be effective communications systems must be geared in an organic way to the realities of rural conditions. As in other service areas, the communication systems have strong urban orientations which must be changed if these systems are to be useful for rural people.